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Bilateral Yen-Dollar Report Issued

The report of the Joint Japan-U.S. Ad Hoc Group on Yen/Dollar Exchange Rate, Financial and Capital Market Issues has finally been released. While the document technically surveys yen internationalization and foreign access to Japanese capital markets, its importance lies in the concessions made by Japan in the process of putting the report together. While the negotiations had earlier provoked an outburst from Treasury Secretary Donald Regan, he hailed the final product as a great success. "I am pleased to say that the report being released today contains major new commitments and policy measures by Japan that we believe will, when fully implemented, redress many of the problems which have existed," he told the press.

The Iranians are feeling the effects of the Iraqi attacks and a decision by Japanese shipping companies to ban Japanese flag ships or Japanese crews from sailing to northern Gulf ports. While chartered foreign flag ships are now being employed by Japanese companies to make the risky run, Iranian crude oil exports have plummeted to an estimated 750,000 barrels a day compared with an early April average of 1.8 million barrels per day. Iran has offered discounts of $2.50 a barrel to compensate for skyrocketing insurance costs, but Japanese trading companies say that this not enough and are seeking cuts of $3.00 and more. Japanese energy officials are remaining calm and claiming that Japan is not in any peril from the tanker attacks. According to the Ministry of International Trade and Industry (MITI), as long as southern Persian Gulf ports remain open, oil imports will not be affected. Even with a 120-day stockpile of oil, MITI has initiated a study of emergency oil supply measures in coordination with the United States and the International Energy Agency. If the situation worsens, Japan may be encouraged to take an increasingly active role, although Foreign Minister Abe insists that Japan will not get involved in arbitration activities.

Jon Choy

The Energy Situation in Japan

The Iran-Iraq war has again focused attention on Japan's near-total dependence on imported energy sources, and Japanese officials have taken a hard look at their current situation with contingency plans in mind. While on the one hand the Japanese economy's energy appetite has increased with the growing recovery, the Ministry of International Trade and Industry (MITI) continues to moderate its outlook for future energy demand.

Japan's crude oil imports since 1980 are summarized in the following table and it is clear that the crude oil efficiency of the Japanese economy has been continuously improving. If Japan's gross national product (GNP) is divided by the total amount of crude imported, a rough measure of energy efficiency can be derived. In 1980, every barrel of oil generated Y117,428 ($511 at current exchange rates) of GNP. In 1983, the figure stood at Y160,757 ($699) for every barrel, a 37 percent increase. These calculations are likely to be favorably skewed because nuclear power has contributed an increasing share of Japan's total energy supply over the last few years. Nuclear power accounted for just under 20 percent of total electricity generated in 1982, up from 16 percent in 1980 and easily surpassing the 1982 hydroelectric component. As a result of this and the development of other alternative energy sources, oil's share of the total energy supply declined from 66 percent in 1980 to 62 percent in 1982.

MITI figures for fiscal year 1983 (April 1, 1983-March 31, 1984) show that imports of crude rose 2.6 percent to just over 1,340 million barrels -- the first increase in four years. Driven by a hot summer, a cold winter and a strengthening recovery, fuel oil production rose 0.9 percent to 1,127 million barrels and fuel oil inventories dropped 11.6 percent. Most of the increase was supplied by Middle Eastern countries whose exports to Japan rose 3.8 percent.

Japan's Imports of Crude Oil by Sources, 1980-1984

(in 1,000 of barrels, share of total in parentheses)

	1980	1981	1982	1983*	1984 Jan.*	1984 Feb.*	1984 Mar.*	1984 Apr.*
Total	1,615,479	1,448,203	1,305,104	1,307,018	114,056	122,711	134,336	118,267
Middle East	1,181,957	999,619	953,187	921,875	82,022	88,481	94,947	83,086
	(73.2)	(69.0)	(70.6)	(70.5)	(71.9)	(72.1)	(70.7)	(70.3)
Saudi Arabia	509,503	497,891	478,009	367,644	33,092	34,966	35,522	28,803
	(31.5)	(34.4)	(35.4)	(28.1)	(29.0)	(28.5)	(26.4)	(24.4)
Iran	NA	49,993	83,902	144,230	12,328	10,838	14,604	10,752
		(3.5)	(6.2)	(11.0)	(10.8)	(8.8)	(10.9)	(9.1)
Iraq	119,819	21,789	24,172	3,453	NA	1,786	NA	6,268
	(7.4)	(1.5)	(1.8)	(0.3)		(1.5)		(5.3)
S.E & F.E. Asia	324,123	290,315	264,306	237,246	21,266	23,676	26,503	22,061
	(20.1)	(20.0)	(19.6)	(18.2)	(18.6)	(19.3)	(19.7)	(18.7)
Indonesia	231,441	228,906	205,758	183,454	15,719	18,204	19,577	16,831
	(14.3)	(15.8)	(15.2)	(14.0)	(13.8)	(14.8)	(14.6)	(13.9)
Brunei	51,414	31,658	31,029	30,192	1,956	3,126	2,941	2,051
	(3.2)	(2.2)	(2.3)	(2.3)	(1.7)	(2.5)	(2.2)	(1.7)
North & South America	29,186	56,000	50,320	61,057	3,583	5,730	5,284	4,884
	(1.8)	(3.9)	(3.7)	(4.7)	(3.1)	(4.7)	(3.9)	(4.1)
Venezuela	13,788	15,417	9,334	7,529	503	528	681	325
	(0.9)	(1.0)	(0.7)	(0.6)	(0.4)	(0.4)	(0.5)	(0.3)
Mexico	9,253	25,915	35,627	50,043	3,082	5,202	4,603	4,559
	(0.6)	(1.8)	(2.6)	(3.8)	(2.7)	(4.2)	(3.4)	(3.9)
Africa	24,523	34,582	17,115	16,416	717	NA	NA	1,631
	(1.5)	(2.4)	(1.3)	(1.3)	(0.6)			(1.4)
Communist Bloc	58,433	66,699	65,057	69,045	6,466	4,824	7,632	6,604
	(3.6)	(4.6)	(4.8)	(5.3)	(5.7)	(3.9)	(5.7)	(5.6)
China	57,673	66,007	64,756	68,278	6,466	4,824	7,596	6,604
	(3.6)	(4.6)	(4.8)	(5.3)	(5.7)	(3.9)	(5.7)	(5.6)
U.S.S.R.	653	692	302	767	NA	NA	35	NA
	(**)	(**)	(**)	(0.1)			(**)	

* Partial or preliminary data.
** Less than 0.1 percent.

Sources: Petroleum Association of Japan, "Japanese Oil Statistics Today," and the Ministry of Finance.

MITI has responded to changing oil prices and an evolving economic structure by altering its long-term forecasts for energy demand -- revising its estimates twice in 1983 alone. First, it reduced its forecast to reflect pessimistic growth predictions coupled with abundant supplies; the second time, the target was pushed up, reflecting increased energy efficiency but tighter oil market conditions. In the predictions for FY 1984, the government sees a slight decline of 2.3 percent to just under 1,340 million barrels in imports of crude oil compared with the slight increase in FY 1983. Over the next four years, MITI predicts that crude oil imports will fluctuate mildly and wind up at 1,296 million barrels, an annual average decrease of 0.7 percent. This is in line with consumption predictions of 1,189 million barrels by FY 1988 or an annual average drop of 0.2 percent. Beyond 1988, the ministry see total energy consumption growing slowly to the equivalent of 2,617 million barrels of oil in FY 1990 (an 18.6 percent increase over FY 1982), 3,335 milion barrels in FY 1995 (up 36.6 percent from FY 1982) and finally 3,775 million barrels by the turn of the century (a 54.6 percent rise).

Emergency stockpiles, efficiency improvements and alternative energy projects continue to receive attention. The FY 1984 budget contains Y603.2 billion for energy related measures. The 0.9 percent increase is particularly significant in light of the strict fiscal austerity that permeates the latest spending plan (overall budgeted expenditures will rise only 0.5 percent). In addition to maintaining a 120-day stockpile of crude oil, MITI plans to increase its 25-day stockpile of liquefied petroleum gas to a 45-day capacity by FY 1988. Diversification of supplies will also continue to receive emphasis, especially since MITI predicts tight markets after 1990. New energy demand will be satisfied through alternative energy sources, with nuclear power playing the central role. It is clear that the calm Japanese response to the destabilizing effects of the Iran-Iraq war is a result of positive adjustment policies -- policies that will continue to bear fruit through the next century.

Jon Choy

Diet Session Extended

The current session of the Diet, Japan's parliament, was extended by 77 days to August 8 by a lower house vote on May 24. The decision was necessitated by the number of domestic legislative initiatives still facing the body, measures which will be used in part as a standard for determining whether Prime Minister Yasuhiro Nakasone will be able to retain his office later this year.

The lower house voted its approval after testing the waters for a 90-day extension. Opposition parties protested so vehemently against the longer term that the ruling coalition of the Liberal Democratic Party (LDP) and the New Liberal Club (NLC) compromised with the lower figure. Even so, all the opposition parties except the Democratic Socialists (DSP) boycotted the actual floor vote as a sign of their opposition to coalition policies. With the LDP and NLC maintaining a functional majority in the lower house, opposition parties can do little in the Diet to prevent government-supported measures from being enacted, other than to resort to obstructionist tactics during the sessions.